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Title of Document: Community Capital Funding Applications

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Applicability: Community Providers

I. PURPOSE AND SCOPE

This document establishes procedures and forms for the submission of requests for various types of community capital needs, including the purchase of land, the purchase or construction of facilities, major renovations and/or repairs, upgrades of mechanical systems, and the pay-off or refinancing of loans for provider-owned or managed facilities. The set of forms is known as the “**capital application**.” "Providers" include DSN boards and QPL Providers who provide residential services to individuals with developmental disabilities and special needs.

This document applies to provider capital expenditures of a minimum of \$10,000 **regardless of the proposed funding source(s)**. For projects under \$10,000, this document applies where SCDDSN assistance is requested for either funding assistance or the provision of architectural/ engineering services. This pertains to capital funding through any combination of the following sources:

- Cash grant award from SCDDSN
- Grant (or forgivable loan) from another state, local, federal or private agency
- Loan - private or government sources (conventional and tax-exempt loans)
- Provider reserves, local fundraising or contributions.

The purchases of vehicles, equipment, or furnishings are excluded from these requirements with the exception of equipment installed as part of a building where the combined cost of the facility and the equipment is expected to exceed \$10,000.

SCDDSN approval of capital applications involving loans will satisfy the following requirement of South Carolina Code Section 44-20-385, 1976, as amended:

- The department shall approve all debt of a county board to be paid in whole or in part from contract, grant, or other revenues provided by the State. However, the department shall have no responsibility for the debt so approved.

II. BACKGROUND

Since October 1988, the Department has required the submission of the capital application forms for construction or renovation of provider facilities, as well as the other needs addressed in section I. SCDDSN established this requirement in response to the need for accountability of assets, efficient structuring of debt, and effective planning. This became necessary in light of the expansion within the county disabilities and special needs board system wherein providers required capital monies for facilities to house their residential, training, and administrative programs. By this document, loans to be paid off or refinanced are also subject to review and approval.

III. RESPONSIBILITIES AND REVIEW OF APPLICATIONS

Providers shall submit completed capital applications to the capital budget director at central office, along with a copy to the appropriate district office. It is presumed the provider has been in communication with the district director, insofar as needs and concept prior to this submission. After review by the capital budget director at central office, the capital application will be presented to the director of budgeting systems, who will, as needed, involve several divisions of the central office to assess each proposal based on their particular areas of expertise: community contracts, engineering and planning, and client services.

The central office divisions may review for the following:

- Program staff may review the design of the facility to determine whether it meets the needs of the program being proposed and whether the facility is consistent with statewide plans.

- Engineering and planning staff may review the proposal, along with sets of blueprints/schematic drawings, in terms of the appropriateness for the program proposed, costs of the proposed structure, design features (especially as they relate to accessibility), procurement issues, and applicable Medicaid, the Fire Marshal, and other requirements.
- Fiscal staff may review the provider's proposal and recent audited financial statements in relation to total costs, financing arrangements, possibility of provider participation and the ability to fund projected operating costs resulting from the proposed capital expenditures.

The Director of Budgeting Systems and/or the Deputy State Director, Administration, will notify the appropriate provider's executive director in writing of the results of the review. Until this is accomplished, providers should make no financial or contractual commitments.

IV. WHEN SUBMISSION IS REQUIRED

Applications are required when the proposed capital expenditure (types detailed in section I) exceeds \$10,000, regardless of the source of funds. For projects under \$10,000, this document applies where SCDDSN assistance is requested for either funding assistance or the provision of architectural/engineering services. This pertains to capital funding through any combination of the following sources:

- Cash grant award from SCDDSN
- Grant (or forgivable loan) from another state, local, federal or private agency
- Loan - private or government sources (conventional and tax-exempt loans)
- Provider reserves, local fundraising or contributions.

The purchases of vehicles, equipment, or furnishings are excluded, with the exception of equipment installed as part of a building where the combined cost of the facility and the equipment is expected to exceed \$10,000. Each project must be part of the provider's service plan.

A provider may submit a preliminary application to the capital budget director at central office in the early planning stages of a project in as much detail as is available at the time of submission. As an alternative to completing a preliminary application, the provider may wish to send a letter to the district director to describe the project concept and to solicit early recommendations. The district director will notify the provider whether the agency should proceed further with the proposal.

At the time the provider completes the initial design of a project, the provider must submit an initial application. The provider completes this application when good estimates of costs and size, as well as selection of a suitable site, have been determined. Submission and approval are required prior to any commitment to proceed with construction, renovation, or commitment to borrow money.

The application form contains a "checklist" of procedural steps (Schedule 13). The information requested on the application is needed for adequate review and approval. Providers may submit amendments to the application upon significant changes in previously submitted data.

At project completion, the final submission is a report of actual costs incurred, from all sources of funds, for the project as a whole. This is reported via Schedule #14 in the application. Along with this Schedule 14, the provider should also submit any legal closing statement (for homes, the "HUD-1").

V. COST CONTAINMENT

SCDDSN supports the reasonable capital needs of providers, in order to accomplish the mission of the agency as a whole. However, cost containment is essential, especially where major capital expenditures are involved.

Cost containment is addressed on an individual project basis, once a provider has appropriately determined its future needs. After initial planning of a project, further development of the project should address location/transportation, building size and space utilization, numbers of individuals to be served, utility factors, alternative uses, and other factors.

After providers address these items, cost containment affects the capital process in several ways: design features, competitive construction bids, selection of building materials and furnishings, local contributions and fund-raising, and financing arrangements with lending institutions and government agencies, where applicable. SCDDSN encourages the use of tax exempt financing if such is necessary.

VI. INSTRUCTIONS FOR COMPLETION OF APPLICATION

Detailed instructions for completion of the capital application are included below. The form itself is located on the extranet under "Forms" and linked at the end of this document. The application includes additional questions about the program, any loan specifications, and several checklists for the provider to follow, including documentation to be attached to the application.

1. DATE: The date the application is being submitted (see #2).
2. TYPE OF APPLICATION: "Preliminary" is an optional submission to the capital budget office for initial review after discussions with the district office. The "original" is the first formal application submitted to the capital budget office, with subsequent review by the central office. A "revision" is an amendment to an "original" application. It may be submitted when there are significant changes to the original application.
3. APPLICANT: Self-explanatory.
4. PROJECT NAME AND SITE ADDRESS: Self-explanatory.
5. TYPE OF CAPITAL REQUEST and HISTORY OF FACILITY: Self-explanatory.
6. ADDITIONAL DESCRIPTION OF PROJECT: Self-explanatory (See also #12).
7. FACILITY TYPE / SPACE DISTRIBUTION: Programs checked should represent those programs housed within the proposed facility. Include hallways, storage and other common areas, and spread these areas proportionately among the program areas. Percentage distribution is the "heated square footage" listed by program divided by the total heated square feet. This should total 100%.
8. SUMMARY OF FUNDING REQUEST: Identify the anticipated funding source(s) for the project. The proposed total should equal the project budget total in #9.
9. CAPITAL BUDGET FOR PROJECT: Projected cost of implementation of the project is to be listed by line item, broken out by sources: SCDDSN, the SC Housing Trust Fund, Other, and Provider, as applicable. Historical cost of any land, if already acquired previously, should be included in the "provider" column. "Total budget" should combine all sources by line item and should equal the proposed funding in #8. These costs are to be all of those necessary to complete the project.
10. ANNUAL OPERATING COSTS FOR PROJECT: This should represent only the estimated OPERATING costs of the new facility (first column) and if it is an existing program in another facility, to compare it with any current costs for such program as presently operated (second column). The third column is simply "new facility" minus "current facility."

11. LOAN PROVISIONS: Self-explanatory.
12. PROGRAM NARRATIVE: Self-explanatory.
13. CHECKLIST FOR CONSTRUCTION OR MAJOR RENOVATION NEEDS: Self-explanatory.
14. SUMMARY OF FINAL PURCHASE/CONSTRUCTION/RENOVATION COSTS: This "Schedule 14" should be submitted within 60 days of project completion. See Section VII below for more detail.

VII. SUMMARY OF FINAL PURCHASE/CONSTRUCTION/RENOVATION COSTS

In addition to the capital application (items 1 through 13), providers must submit the "Schedule 14" form "Summary of Final Construction/Renovation Costs" within 60 days of project completion, as a term of the capital grant, to the capital budget director in the central office. For a purchase, any signed closing statement is also requested. Its purpose is to bring the documentation of the project to closure and to aid in the cost reporting process. The signature of the executive director or the finance director certifies all listed items were true costs and expended from the sources reflected. Back-up documentation should be maintained by the provider in a permanent file, but invoices, pay applications, etc. need not be submitted. This format mirrors the line items in section 9, but should only include actual expenditures.

It is normal and reasonable to assume some line items were necessary after purchase, and vice versa, some items anticipated were not deemed necessary after all. Funds received for items not procured are to be either used for other "bricks and mortar" needs of the facility (no furnishings or supplies) or returned to DDSN (see IX below).

VIII. ADDENDA TO CAPITAL APPLICATION

For the purchase or construction of a facility (residential or non-residential), the capital application includes addenda "A" through "G." These will aid the provider in complying with this directive.

Addendum "A" is the Pre-Purchase Checklist for a Facility. For an existing facility, this addendum A is to be completed in addition to the submission of an independent building inspection.

Addendum “B” is the Justification of Purchase/Construction of a Particular Facility.” It includes a series of key questions to be answered in narrative form on a separate piece of paper.

Addendum “C” is a fill-in-the-blank sample zoning letter is provided for duplication onto city or county letterhead. It is to be used for the purchase or construction of a facility.

Addendum “D” is the “Work Write-Up” schedule and is needed **only** for the construction of community training homes (CTH-II’s). It is also available at www.schousing.com.

Addendum “E” is a community training home II (CTH-II) floor plan prototype offered by DDSN Engineering and Planning for use in constructing an accessible residence with the basic features promulgated by DDSN.

Addendum “F” is information related to egress standards of DDSN and other regulatory agencies.

Addendum “G” is a list of real estate contract terms necessary per this directive.

IX. CAPITAL GRANT TERMS / CONDITIONS / REVERTER CLAUSE

When a capital grant is awarded by SCDDSN, the provider will receive a one-page “Notice of Special Grant Award” along with a payment schedule. Both are to be signed by the executive or finance director and returned for processing of the funds. The amount awarded to date by facility is considered an “equity interest” to SCDDSN; in the event of a future change in ownership and/or disposal in some fashion of the facility and property, this amount must be returned (revert) to SCDDSN in the form of an operating budget credit adjustment (preferred) or check. Also, as described in section VII, any funds not expended, or not expended as approved, are to be returned.

Sample wording covering these items is as follows:

These funds are to be used for _____ at _____, per the capital application approved by the Grantor. The Grantee agrees to continue to use the facility for the same program unless the Grantor and the Grantee mutually agree to a change in the facility’s use. If the facility is vacant for more than one month (residential) or three months (non-residential), or if the facility is eventually sold, proceeds from the sale in the amount of total Grantor capital funds for this facility to date would need to be used for purchase of a substitute facility or returned to the Grantor. Funds not expended, and/or

not expended as designated, are to be returned to the Grantor. The Grantee agrees to submit Section 14 of the capital application (summary of actual costs) within 60 days of occupancy or completion, along with HUD-1 or other legal closing statements.

As further discussed below in Section X, the above terminology will be adapted, as applicable, for residences also funded with a forgivable loan from the SC Housing Trust Fund. Due to the importance of not compromising SCDDSN's good relationship and partnership with the SCHTF, such homes must not be vacant for more than one month without full payback (including lien release fee, as applicable) to the SCHTF. The capital budget director will provide assistance as needed in requesting such a payback amount. SCDDSN will take a secondary position to the SCHTF in terms of payback.

X. CHANGE IN OWNERSHIP OF ANY PROPERTY OWNED BY A PROVIDER

It is reasonable to assume that from time to time, a provider may wish to sell an existing property, either to consolidate or substitute (replace). This could be for financial, programmatic, or other reasons. Due to the impact of such an action, any changes in ownership of any property, including changes of those properties for which DDSN does not have an equity interest, must be approved by the Deputy State Director, Administration, before the property is offered for sale, as well as by the applicable district director. For residential properties, the Associate State Director for Operations, must also approve a change in ownership as it affects bed development.

After applicable approvals are obtained, the next step in the process to sell or convey ownership is to obtain a current appraisal to determine a marketable sales price. DDSN suggests negotiating with a realtor to determine the most advantageous commission structure, or to sell by owner. Once an offer to purchase is received, contact is to be made by telephone or email to the Director of Budgeting Systems, prior to execution of a sales contract. Upon closing, the HUD-1 closing statement and a copy of the final sales contract are to be sent to the Capital Budget Director for processing of the payback credit to DDSN.

Robert W. Barfield
Deputy State Director, Administration
(Originator)

Stanley J. Butkus, Ph.D.
State Director
(Approved)

Enclosures:

1. SCDDSN Capital Application, Sections 1-13
2. Schedule 14 Summary of Final Costs
3. Addendum A
4. Addendum B
5. Addendum C
6. Addendum D
7. Addendum E
8. Addendum F
9. Addendum G